

**COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

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Investigation by the Department of Telecommunications)	
and Energy on its own Motion into the Provision of)	D.T.E. 02-40
Default Service)	
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**REPLY COMMENTS OF PG&E NATIONAL ENERGY GROUP
REGARDING THE PROVISION OF DEFAULT SERVICE**

I. INTRODUCTION

PG&E National Energy Group (“NEG”) appreciates the opportunity to submit Reply Comments pursuant to the schedule contained in the Investigation by the Department of Telecommunications and Energy (“Department”) on its own Motion into the Provision of Default Service. In our Initial Comments in this proceeding NEG listed the goals for post-transition default service as culled from the existing outstanding proposals, enumerated a set of principles we believe should be adopted by the Department, offered a unique proposal for structuring default service and noted the benefits of our proposal and how it fulfills the general goals included in most of the existing proposals.

Upon review of the initial comments, it is apparent that aside from NEG’s proposal, there are two general models that are being proposed, with minor variations by different commenters. The first model is a retail model that is characterized by customers becoming retail customers of a competitive retail supplier, the provider of last resort obligation being transferred from the

utility to the competitive market, and the utilization of a retail auction (where all of the costs of supplying a customer are included in the price). The primary proponents of such an approach are Massachusetts Electric Company and the Competitive Retail Suppliers. The second model is a revised wholesale model that is characterized by customers remaining retail customers of the utility, the provider of last resort obligation being retained by the utility, and the utilization of a refined wholesale auction with smaller tranches, averaged prices, and the inclusion of some additional costs, for example bad debt. The primary proponents of this approach are the Massachusetts Division of Energy Resources, NSTAR, and the Attorney General. NEG realizes that each of these commenters could rightly disagree with certain aspects of this generalization, but nevertheless we believe the general grouping of attributes is correct.

Each of these models has shortcomings. On the one hand, the retail model is criticized as more unreliable because the provider of last resort obligation is no longer with the utility company but is instead with the competitive market, and as a form of slamming by moving customers to competitive suppliers the customers did not affirmatively choose. On the other hand, the revised wholesale model is criticized as failing to facilitate the migration to competitive retail suppliers, thereby continuing the status quo with almost all residential and small commercial customers not choosing a competitive retail supplier, and therefore not benefiting from an end game where there are numerous suppliers, robust competition, and various term, service, attribute and technological offerings. NEG believes that there is some validity to these criticisms; as such we offer a third way.

II. NEG's BALLOT PROPOSAL

NEG's proposal is based on the premise that the electric restructuring law envisioned that, at some point, customers would choose the entity that provided them their power. NEG's proposal, therefore, offers consumers the ability to directly choose their provider of default service. The utility does not act as proxy for the customer; the customer gets to choose.

As more fully detailed in NEG's Initial Comments, customers would make their choices for default service supplier via a ballot developed by the Department. The distribution of ballots would be done through the utilities, probably on a staggered basis and by customer class. The ballot would list all suppliers of default service and their prices, by franchise area and by class. The suppliers of default service would compete on price, name and company reputation alone, as default service would be a basic, plain vanilla offering and the terms and conditions of default service would be rudimentary and already determined by the Department. All default service suppliers would be required to provide a price as of a date certain, which would be the same for all suppliers. The ballot would be open for a finite, pre-determined period of time (again, the same for all suppliers). The ballot would be redistributed at the end of each term, which we suggest should be three years. NEG envisions that the utilities would continue to provide metering, billing, credit and collection and information services, as well as to recover in rates low income subsidies.

For customers not on default service, Competitive Retail Suppliers would provide differentiated products under the same rules as they do today. These

products may offer floating prices, green attributes, specific product mixes, special contract terms and conditions, conservation and load management services, other additional services, etceteras. As a backstop, those customers taking service from a Competitive Retail Supplier would be able to choose which entity it would like to serve as its default supplier, if the need arose.

III. BENEFITS OF NEG PROPOSAL

There are many benefits to NEG's proposal. First and foremost, customers are given the CHOICE of default service supplier. Neither of the other models provides consumers with choice. Second, a stable price at market rates is assured due to the fixed price nature and the three-year duration (volatility is eliminated). Third, NEG's proposal should facilitate migration of all customers, but particularly small C&I and residential customers, to competitive retail supply. Because default service is a basic service priced at retail and set for a period of time (providing a "price to beat"), competitive retail suppliers will have an easier time competing on price, distinguishing their products and offering additional value. In addition, use of the ballot will help change customers' behavior, getting them accustomed to making an affirmative choice of generation supplier. Finally, NEG's proposal maintains the utility as the metering and billing agent, thereby considerably reducing possible customer confusion.

NEG believes that our proposal is free of many of the criticisms made of the other two models. The retail model is criticized as unreliable and as a form of slamming. While NEG proposes that the marketplace should assume the provider of last resort obligation, we are amenable to a construct whereby

the marketplace would assume the load-serving obligation, but utilities would retain the obligation to establish and implement a process in the event of the default of the default service provider. Therefore, if a provider of default service were to default on its contractual obligations, and was unable to provide generation to its customers, it would be the utilities obligation to put out another ballot or to run an auction for those customers. In this way, the utilities obligations are limited to action at the end of the three-year term and upon the default of any of the suppliers of default service. In addition, our proposal envisions that there would be a sufficient credit review performed of prospective suppliers by the DTE to protect the customers in the case of default. With this construct, our proposal should be as reliable as what is in place currently.

Regarding the issue of slamming, it is our contention that our proposal does not result in slamming. Under NEG's proposal, customers are given a choice of default service supplier, **not the case under either of the other models**. If a customer does not choose a default service supplier after perhaps up to three opportunities to do so, the consequences of non-action are clearly spelled out to the customer; in effect, the customer has chosen to be assigned. Hopefully, this will be a relatively small number of accounts. In addition, under the NEG proposal, the utility will remain the metering and billing agent and therefore the primary contact with the customer. This will reduce any possible customer confusion. Finally, under the existing method for default service procurement, customers are being assigned today. The utility assigns all default service customers to the winner of the procurement auction. No affirmative consent of customers is requested by the utility nor given by the customer.

The revised wholesale model is criticized as not enhancing migration to the retail marketplace. In fact, certain commenters state that migration to the retail market should not be a goal of default service. Comments of NSTAR at 4. As stated above, NEG's proposal should result in much greater migration to the retail market for all classes of customers, especially residential and small commercial. NEG's proposal provides for a basic, plain vanilla service, a price to beat, and a method to change customer behavior by requiring an affirmative choice of a default service supplier.

NEG also maintains that enhanced migration to the retail market place is a worthy goal. It will result in a more liquid market, more robust competition, greater consumer choices in terms and conditions of service, technological advances, and a wide array of service offerings (including green attributes, conservation and load management services, load following, etceteras). NEG believes that residential and small commercial customers will benefit greatly from a marketplace of many sellers of services, much more than today where the utility acts as a proxy via the wholesale auction.

IV. VOLUME EFFICIENCIES

If the Department decides against the ballot approach and in favor of an auction approach, either retail or wholesale, there is an issue of some importance that we feel deserves greater attention. Some commenters have argued that there should be many auctions of small tranches of load. Comments of Massachusetts Division of Energy Resources at 17-23, Massachusetts Electric Company at 10. NEG believes that such an approach

is unwise and will result in higher costs to the consumer. First, volume efficiencies are lost with smaller tranches. Limiting suppliers to an arbitrary share of default service will preclude suppliers from being able to pass along any scale economies to customers. Second, supplier's administrative and fixed costs must be spread over fewer kWhs billed. From the customer's point of view, this means that there are an artificially high number of suppliers, each with a fixed administrative cost that must be paid for by the customers. Experience shows that suppliers are generally able to offer a better price on a larger tranche of load. While NEG is not opposed to suppliers having small market share, we believe that the rules should not place artificial constraints on tranche size. Third, a certain scale is important to new entrants. Comments of Competitive Retail Suppliers at 7-8, Competitive Power Coalition at 3. In order to cover the start up and acquisition costs it is better to have larger tranches. Finally, in order to maintain the interest of larger players it is better to auction off larger portions of the available load. Therefore, if the Department decides to approve an auction approach we suggest that there be no limitations placed on the amount of load auctioned off at one time to any supplier.

V. CONCLUSION

Once again, NEG appreciates the opportunity to provide these Reply Comments. We hope that our Initial and Reply Comments will assist the Department in the very important task of providing for the pricing and procurement of default service in the optimal manner. We believe that our proposal more closely attains that goal than the two other models, while providing consumers with a real choice of supplier.

Sincerely,

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